

**MERCER COUNTY  
SCHOOL DISTRICT  
AUDIT REPORT  
JUNE 30, 2017**

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October 27, 2017

**INDEPENDENT AUDITOR'S REPORT**

Members of the Board of Education  
Mercer County School District  
Harrodsburg, Kentucky

**Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Mercer County School District as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise Mercer County School District's basic financial statements as listed in the table of contents.

***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, *Appendix I to the Independent Auditor's Contract – Audit Extension Request*, *Appendix II to the Independent Auditor's Contract – Instructions for Submission of the Audit Contract*, *Audit Acceptance Statement*, *AFR and Balance Sheet*, *Statement of Certification*, and *Audit Report*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Mercer County School District as of June 30, 2017, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and schedules of the district's proportionate share of net pension liabilities on Pages 4 through 10 and 42 through 47 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### ***Other Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Mercer County School District's basic financial statements. The combining and individual nonmajor fund financial statements, and the statement of receipts, disbursements and fund balance – High School Activity Fund are presented for the purpose of additional analysis and are not a required part of the financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements, the statement of receipts, disbursements and fund balance – High School Activity Fund, and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements, statement of receipts, disbursements and fund balance – High School Activity Fund and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued a report dated October 27, 2017, on our consideration of Mercer County School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Mercer County School District's internal control over financial reporting and compliance.

Sincerely,

*White and Company, P.S.C.*

Certified Public Accountants

**MERCER COUNTY SCHOOL DISTRICT**  
**Management's Discussion and Analysis (MD&A)**  
**Year Ended June 30, 2017**

As management of the Mercer County School District (District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2017. We encourage readers to consider the information presented here in conjunction with additional information found within the body of the financial statements.

**FINANCIAL HIGHLIGHTS**

- The beginning General Fund's fund balance was \$3.37 million. The ending fund balance was \$4.41 million. General fund revenues showed a decrease of \$106 thousand and expenditures showed a decrease of \$529 thousand as compared with the prior year. The General Fund transferred \$54 thousand to the Special Revenue Fund for the technology grant match and \$10 thousand to debt service for debt payments.
- The District had \$31.7 million in revenue and \$30.3 million in expenses.
- The District, through routine debt service, reduced bond debt through the Debt Service Fund. Bond and capital lease payments for fiscal year 2017 totaled \$2.26 million in principal payments and \$809 thousand in interest payments.
- The District's total net position increased \$1,381,031 to \$16,791,767. Current assets increased \$76,976, non-current assets decreased \$1,494,815 and total liabilities decreased \$2,376,233.

## OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) district-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**District-wide financial statements** - The district-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The statement of net position presents information on all of the District's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the district is improving or deteriorating.

The statement of activities presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The district-wide financial statements outline functions of the District that are principally supported by property taxes and intergovernmental revenues (governmental activities). The governmental activities of the District include instruction, support services, operation and maintenance of plant, student transportation and operation of non-instructional services. Fixed assets and related debt are also supported by taxes and intergovernmental revenues.

The district-wide financial statements can be found on pages 11 - 12 of this report.

**Fund financial statements.** A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. This is a state mandated uniform system and chart of accounts for all Kentucky public school districts utilizing the MUNIS administrative software. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into three categories: governmental, proprietary funds and fiduciary funds. Fiduciary funds are trust funds established by benefactors to aid in student education, welfare and teacher support. The only proprietary funds are our day care and food service operations. All other activities of the district are included in the governmental funds.

The basic governmental fund financial statements can be found on pages 13 - 20 of this report.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the district-wide and fund financial statements. The notes to the financial statements can be found on pages 21 - 41 of this report.

## DISTRICT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets and deferred outflows exceeded liabilities and deferred inflows by \$16,791,767 as of June 30, 2017.



The largest portion of the District's net position reflects its investment in capital assets (e.g., land and improvements, buildings and improvements, vehicles, furniture and equipment), less any related debt used to acquire those assets that are still outstanding. The District uses these capital assets to provide services to its students; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The District's financial position is the product of several financial transactions including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets, and the depreciation of capital assets.

### Net Position for the period ending June 30, 2017 and June 30, 2016

A comparison of June 30, 2017 and June 30, 2016 government wide net position is as follows:

	Governmental Activities		Business - Type Activities		Total Primary Government	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Current and Other Assets	\$ 5,396,598	\$ 5,387,283	\$ 415,971	\$ 348,310	\$ 5,812,569	\$ 5,735,593
Capital Assets	46,529,639	48,043,992	79,327	59,789	46,608,966	48,103,781
Deferred Outflows	<u>3,059,980</u>	<u>2,601,195</u>	<u>-</u>	<u>-</u>	<u>3,059,980</u>	<u>2,601,195</u>
Total Assets and Def Outflows	<u>54,986,217</u>	<u>56,032,470</u>	<u>495,298</u>	<u>408,099</u>	<u>55,481,515</u>	<u>56,440,569</u>
Current Liabilities	3,050,781	3,810,936	943	3,688	3,051,724	3,814,624
Non-Current Liabilities	35,186,579	36,799,912	-	-	35,186,579	36,799,912
Deferred Inflows	<u>451,445</u>	<u>415,297</u>	<u>-</u>	<u>-</u>	<u>451,445</u>	<u>415,297</u>
Total Liabilities and Def Inflows	<u>38,688,805</u>	<u>41,026,145</u>	<u>943</u>	<u>3,688</u>	<u>38,689,748</u>	<u>41,029,833</u>
<b>Net Position</b>						
Net Investment in Capital Assets	16,903,401	16,441,887	79,327	59,789	16,982,728	16,501,676
Restricted	443,645	737,055	415,028	344,622	858,673	1,081,677
Unrestricted	<u>(1,049,634)</u>	<u>(2,172,617)</u>	<u>-</u>	<u>-</u>	<u>(1,049,634)</u>	<u>(2,172,617)</u>
<b>Total Net Position</b>	<u>\$ 16,297,412</u>	<u>\$ 15,006,325</u>	<u>\$ 494,355</u>	<u>\$ 404,411</u>	<u>\$ 16,791,767</u>	<u>\$ 15,410,736</u>

The following table presents a comparison of revenues, expenses and changes in net position for the fiscal years ended June 30, 2017 and June 30, 2016.

	Governmental Activities		Business – Type Activities		Total Primary Government	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
<b>REVENUES</b>						
Program revenues						
Charges for services	\$ 0	\$ 0	\$ 186,084	\$ 200,529	\$ 186,084	\$ 200,529
Operating grants and contributions	3,067,712	3,181,223	1,373,133	1,187,903	4,440,845	4,369,126
Capital grants	34,482	48,689			34,482	48,689
General revenues						
Property taxes	7,456,872	7,617,944			7,456,872	7,617,944
Motor vehicle taxes	805,085	677,593			805,085	677,593
Utility Taxes	1,505,968	1,072,634			1,505,968	1,072,634
Other taxes	45,529	147,845			45,529	147,845
Investment earnings	28,016	39,913	1,459	1,874	29,475	41,787
State and formula grants	16,790,753	17,097,324			16,790,753	17,097,324
Miscellaneous	439,174	638,847	(45,183)	(801)	393,991	638,046
<b>Total revenues</b>	<u>30,173,591</u>	<u>30,522,012</u>	<u>1,515,493</u>	<u>1,389,505</u>	<u>31,689,084</u>	<u>31,911,517</u>
<b>EXPENSES</b>						
Program Activities						
Instructional	18,243,800	19,613,395			18,243,800	19,613,395
Student support	847,509	869,302			847,509	869,302
Instructional staff Support	1,113,962	1,014,235			1,113,962	1,014,235
District administrative support	798,003	930,718			798,003	930,718
School administrative support	1,604,546	1,941,778			1,604,546	1,941,778
Business support	488,913	304,082			488,913	304,082
Plant operations and maintenance	2,693,343	2,334,832			2,693,343	2,334,832
Student transportation	1,893,619	2,109,306			1,893,619	2,109,306
Community service activities	258,194	251,639			258,194	251,639
Other	44,393	115,830			44,393	116,631
Interest costs	896,222	862,427			896,222	862,427
Business-type Activities						
Food service			1,425,549	1,357,046	1,425,549	1,357,046
Day Care						
<b>Total expenses</b>	<u>28,882,504</u>	<u>30,347,544</u>	<u>1,425,549</u>	<u>1,357,046</u>	<u>30,308,053</u>	<u>31,704,590</u>
<b>Increase in net position</b>	<u>\$ 1,291,087</u>	<u>\$ 174,468</u>	<u>\$ 89,944</u>	<u>\$ 32,459</u>	<u>\$ 1,381,031</u>	<u>\$ 206,927</u>

On-behalf amounts are included in the above figures. On-behalf payments are payments the state makes on behalf of employees to the various agencies for health and life insurance, benefits, administration fees, technology and debt service. The total on-behalf payments for 2017 and 2016 were \$5,171,287 and \$5,216,319 respectively.

### Governmental Activities

For the governmental program expenses, instructional expenses comprise 63% of total expenses, support services equate to 33%, and interest and other expenses make up the remaining 4% of the total.

The cost of program services and the charges for services and grants offsetting those services are shown on the Statement of Activities. The Statement of activities identifies the net cost of services supported by tax revenue and unrestricted intergovernmental revenues (State entitlements).

	Governmental Activities Total		Governmental Activities Net	
	Cost of Services		Cost of Services	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Instructional	\$ 18,243,800	\$ 19,613,395	\$ 15,892,827	\$ 17,112,037
Support Services	9,483,756	9,549,280	9,015,046	9,112,137
Other	258,726	322,442	10,697	79,720
Interest Costs	<u>896,222</u>	<u>862,427</u>	<u>861,740</u>	<u>813,738</u>
Total Expenses	<u>\$ 28,882,504</u>	<u>\$ 30,347,544</u>	<u>\$ 25,780,310</u>	<u>\$ 27,111,632</u>

### Business-Type Activities

The business type activities consist of the food service and day care programs. These programs had total revenues of \$1,515,493 and expenses of \$1,425,549 for fiscal year 2017. These revenues were made up of \$186,084 charges for services, \$1,373,133 federal and state operating grants and \$1,459 earnings on investments, and \$45,183 was transferred out of day care to the general fund since the day care activities have ended. These business-type activities receive no support from tax revenues, and, as such, the District will continue to monitor these activities and make the necessary adjustments to the operations of these activities.

### The School District's Funds

The information relative to the School District's Funds starts on page 13. These funds use the modified accrual basis of accounting to account for each fund's revenues and expenses. The combined revenue for all governmental funds for 2017 was \$30,123,066 and expenditures were \$29,712,180.

## **General Fund Budgetary Highlights**

The District's budget is based on accounting for certain transactions on the cash basis for receipts and expenditures and encumbrances and is prepared according to Kentucky law. The Kentucky Department of Education requires a zero-based budget with any remaining fund balance to be shown as a contingency expense in the budgeting process.

The most significant budgeted fund is the General Fund. The general fund had budgeted revenues of \$18,302,986 with actual revenue being \$24,324,877. Budgeted expenditures were \$21,602,986 compared to actual expenditures of \$23,283,972. The most significant cause of the variance between budget and actual was the state on-behalf payments in the amount of \$5,171,287, which are not budgeted.

## **Future Budgetary Implications**

In Kentucky, the public schools fiscal year is July 1 – June 30; other programs, i.e. some federal programs operate on a different fiscal calendar, but are reflected in the District overall budget. By law, the budget must have a minimum 2% contingency. The District adopted a budget for 2016-2017 with a 2% contingency. The District has also adopted a budget for 2017-2018 with a 2% contingency.

The Board's obligation for contribution to the Kentucky Retirement System for classified employees increased for FY 2017 from 17.06% to 18.68%. The Teachers Retirement had no contribution change at 3% on all employees and no contribution change on the federal grants matching at 16.105%. The Board's obligation for contribution to the Kentucky Retirement System for classified employees increased for FY 2018 from 18.68% to 19.18%. The Teachers Retirement had no contribution change at 3% on all employees and no contribution change on the federal grants matching at 16.105%.

The SEEK base funding remained at \$3,981 per pupil in FY 2017-2018. The General Fund will be closely monitored to support District staffing.

## **CAPITAL ASSET AND DEBT ADMINISTRATION**

### **Capital Assets**

At the end of the 2017 fiscal year, the District had invested \$46,608,966 in a broad range of capital assets, including equipment, buses, buildings, and land net of accumulated depreciation. This amount represents a net decrease of \$1,494,815. Depreciation expense for the year was \$1,977,180 and capital additions were \$482,365.

The table on the following page shows capital assets net of depreciation for the governmental activities, business-type activities and total primary government for fiscal years ended June 30, 2017 and 2016.

	Governmental Activities (Net of Depreciation)		Business - Type Activities (Net of Depreciation)		Total Primary Government (Net of Depreciation)	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Land	\$ 1,467,246	\$ 1,467,246	\$ -	\$ -	\$1,467,246	\$ 1,467,246
Construction In Progress	-	541,345	-	-	-	541,345
Buildings and Improvements	43,024,231	44,034,260	-	-	43,024,231	44,034,260
Technology	153,977	142,941	-	-	153,977	142,941
Vehicles	1,339,072	1,257,976	-	-	1,339,072	1,257,976
General Equipment	545,113	600,224	79,327	59,789	624,440	660,013
Total	<u>\$ 46,529,639</u>	<u>\$ 48,043,992</u>	<u>\$ 79,327</u>	<u>\$ 59,789</u>	<u>\$ 46,608,966</u>	<u>\$ 48,103,781</u>

The table below shows the changes in capital assets for fiscal years ended June 30, 2017 and 2016.

	Governmental Activities		Business - Type Activities		Total Primary Government	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Beginning Balance	\$ 48,043,992	\$ 49,256,273	\$ 59,789	\$ 72,967	\$ 48,103,781	\$ 49,329,240
Additions	452,234	842,946	30,131	-	482,365	842,946
Retirements	-	(17,447)	-	(801)	-	(18,248)
Depreciation	<u>(1,966,587)</u>	<u>(2,037,780)</u>	<u>(10,593)</u>	<u>(12,377)</u>	<u>(1,977,180)</u>	<u>(2,050,157)</u>
Ending Balance	<u>\$ 46,529,639</u>	<u>\$ 48,043,992</u>	<u>\$ 79,327</u>	<u>\$ 59,789</u>	<u>\$ 46,608,966</u>	<u>\$ 48,103,781</u>

### Long-Term Debt

At year-end the District had \$28,897,689 in bonds outstanding and \$728,549 in capital lease obligations. Bonded debt principal paid for the year ended June 30, 2017 was \$2,145,664. The District entered into a capital lease agreement for \$286,064 to purchase buses in fiscal year 2016-2017. Bond principal of \$2,606,606 and capital lease principal of \$91,383 are due within one year.

### Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers and other interested readers with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information contact the District's Superintendent or Finance Director.

MERCER COUNTY SCHOOL DISTRICT  
STATEMENT OF NET POSITION  
JUNE 30, 2017

	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
<b>ASSETS:</b>			
Cash & Cash Equivalents - Note C	4,750,249	383,007	5,133,256
Accounts Receivable:			
Taxes - Current	157,091		157,091
Taxes - Delinquent	4,110		4,110
Accounts	88,117	7,514	95,631
Intergovernmental - State	49,036		49,036
Intergovernmental - Federal	347,995		347,995
Inventories for Consumption		25,450	25,450
Total Current Assets	5,396,598	415,971	5,812,569
Noncurrent Assets - Note F			
Land	1,467,246		1,467,246
Buildings & Improvements	68,330,469		68,330,469
Furniture & Equipment	7,522,647	223,720	7,746,367
Less: Accumulated Depreciation	(30,790,723)	(144,393)	(30,935,116)
Total Noncurrent Assets	46,529,639	79,327	46,608,966
<b>TOTAL ASSETS</b>	<b>51,926,237</b>	<b>495,298</b>	<b>52,421,535</b>
Deferred Outflows Related to Pensions	1,996,992		1,996,992
Deferred Outflows Related to Advanced Bond Refundings	1,062,988		1,062,988
<b>TOTAL DEFERRED OUTFLOWS</b>	<b>3,059,980</b>	<b>0</b>	<b>3,059,980</b>
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS</b>	<b>54,986,217</b>	<b>495,298</b>	<b>55,481,515</b>
<b>LIABILITIES:</b>			
Current Liabilities:			
Accounts Payable	40,553	943	41,496
Accrued Salaries & Payroll Liabilities	9,004		9,004
Accrued Sick Leave - Note A	53,448		53,448
Advances from Grantors	437,374		437,374
KSBIT Assessment - Note Q	42,622		42,622
Bond Obligations - Note D	2,206,606		2,206,606
Capital Lease Obligation - Note E	91,383		91,383
Accrued Interest Payable	169,791		169,791
Total Current Liabilities	3,050,781	943	3,051,724
Noncurrent Liabilities:			
Bond Obligations - Note D	26,691,083		26,691,083
Unamortized Bond Premiums	328,726		328,726
Capital Lease Obligation - Note E	637,166		637,166
KSBIT Assessment - Note Q	127,866		127,866
Net Pension Liability	6,738,586		6,738,586
Accrued Sick Leave - Note A	663,152		663,152
Total Noncurrent Liabilities	35,186,579		35,186,579
<b>TOTAL LIABILITIES</b>	<b>38,237,360</b>	<b>943</b>	<b>38,238,303</b>
Deferred Inflows Related to Pensions	451,445	0	451,445
<b>TOTAL LIABILITIES AND DEFERRED INFLOWS</b>	<b>38,688,805</b>	<b>943</b>	<b>38,689,748</b>
<b>NET POSITION:</b>			
Net Investment in Capital Assets	16,903,401	79,327	16,982,728
Restricted for:			
Capital Projects	83,728		83,728
School Activities	359,653		359,653
SFCC Escrow	264		264
Food Service		415,028	415,028
Unrestricted	(1,049,634)		(1,049,634)
<b>TOTAL NET POSITION</b>	<b>16,297,412</b>	<b>494,355</b>	<b>16,791,767</b>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<b>54,986,217</b>	<b>495,298</b>	<b>55,481,515</b>

See independent auditor's report and accompanying notes to financial statements.

MERCER COUNTY SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2017

FUNCTION/PROGRAMS	EXPENSES	PROGRAM REVENUES			NET(EXPENSE) REVENUE AND CHANGES IN NET POSITION		
		CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL
GOVERNMENTAL ACTIVITIES:							
Instructional	18,243,800		2,350,973		(15,892,827)		(15,892,827)
Support Services:							
Student Support Services	847,509		30,902		(816,607)		(816,607)
Staff Support Services	1,113,962		369,167		(744,795)		(744,795)
District Administration	798,003				(798,003)		(798,003)
School Administration	1,604,546				(1,604,546)		(1,604,546)
Business Support Services	488,913				(488,913)		(488,913)
Plant Operation & Maintenance	2,693,343		68,641		(2,624,702)		(2,624,702)
Student Transportation	1,893,619				(1,893,619)		(1,893,619)
Food Service Operations	43,861				(43,861)		(43,861)
Community Service Operations	258,194		248,029		(10,165)		(10,165)
Facilities Acquisition & Construction	532				(532)		(532)
Interest on Long-Term Debt	896,222			34,482	(861,740)		(861,740)
TOTAL GOVERNMENTAL ACTIVITIES	28,882,504	0	3,067,712	34,482	(25,780,310)		(25,780,310)
BUSINESS-TYPE ACTIVITIES:							
Day Care						0	0
Food Service	1,425,549	186,084	1,373,133			133,668	133,668
TOTAL BUSINESS-TYPE ACTIVITIES	1,425,549	186,084	1,373,133	0	0	133,668	133,668
TOTAL SCHOOL DISTRICT	30,308,053	186,084	4,440,845	34,482	(25,780,310)	133,668	(25,646,642)
GENERAL REVENUES:							
Taxes:							
Property					7,456,872		7,456,872
Motor Vehicle					805,085		805,085
Utility					1,505,968		1,505,968
Other					45,529		45,529
State Aid - Formula Grants					16,790,753		16,790,753
Investment Earnings					28,016	1,459	29,475
Miscellaneous					388,649		388,649
SPECIAL ITEMS:							
Loss Compensation					5,342		5,342
Funds Transfer (Expense)					45,183	(45,183)	0
TOTAL GENERAL & SPECIAL					27,071,397	(43,724)	27,027,673
CHANGE IN NET POSITION							
NET POSITION - BEGINNING					1,291,087	89,944	1,381,031
NET POSITION - ENDING					15,006,325	404,411	15,410,736
					16,297,412	494,355	16,791,767

See independent auditor's report and accompanying notes to financial statements.

MERCER COUNTY SCHOOL DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2017

	GENERAL FUND	SPECIAL REVENUE	DEBT SERVICE FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
ASSETS:					
Cash & Cash Equivalents	4,265,211	40,343		444,695	4,750,249
Accounts Receivable:					
Taxes - Current	157,091				157,091
Taxes - Delinquent	4,110				4,110
Accounts	88,117				88,117
Intergovernmental - State		49,036			49,036
Intergovernmental - Federal		347,995			347,995
TOTAL ASSETS	<u>4,514,529</u>	<u>437,374</u>	<u>0</u>	<u>444,695</u>	<u>5,396,598</u>
LIABILITIES AND FUND BALANCE:					
Liabilities:					
Accounts Payable	39,503			1,050	40,553
Accrued Salaries & Sick Leave	62,452				62,452
Advances from Grantors		437,374			437,374
Total Liabilities	<u>101,955</u>	<u>437,374</u>	<u>0</u>	<u>1,050</u>	<u>540,379</u>
Fund Balance:					
Restricted for:					
Capital Projects				83,728	83,728
School Activities				359,653	359,653
SFCC Escrow				264	264
Committed For:					
Site Based Carryforward	37,557				37,557
Accrued Sick Leave	663,152				663,152
Unassigned	3,711,865				3,711,865
Total Fund Balance	<u>4,412,574</u>	<u>0</u>	<u>0</u>	<u>443,645</u>	<u>4,856,219</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>4,514,529</u>	<u>437,374</u>	<u>0</u>	<u>444,695</u>	<u>5,396,598</u>

See independent auditor's report and accompanying notes to financial statements.



MERCER COUNTY SCHOOL DISTRICT  
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET POSITION  
FOR THE YEAR ENDED JUNE 30, 2017

Amounts reported for governmental activities in the statement of net position are different because:

TOTAL GOVERNMENTAL FUND BALANCE		4,856,219
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.		
Cost of Capital Assets	77,320,362	
Accumulated Depreciation	<u>(30,790,723)</u>	46,529,639
Deferred Outflows Related to Bond Refundings are not a current asset and therefore are not reported as assets in governmental funds.		1,062,988
Deferred Outflows Related to Pensions are not a current asset and therefore are not reported as assets in governmental funds.		1,996,992
Long-term liabilities (including bonds payable) are not due and payable in the current period and therefore are not reported as liabilities in the funds.		
Long-term liabilities at year end consist of:		
Bonds Payable	(28,897,689)	
Unamortized Bond Premiums	(328,726)	
Capital Lease Obligation	(728,549)	
Accrued Interest on Bonds	(169,791)	
KSBIT Assessment	(170,488)	
Net Pension Liability	(6,738,586)	
Accrued Sick Leave	<u>(663,152)</u>	(37,696,981)
Deferred Inflows Related to Pensions are not a current liabilities and therefore are not reported as liabilities in governmental funds.		<u>(451,445)</u>
TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES		<u><u>16,297,412</u></u>

See independent auditor's report and accompanying notes to financial statements.

MERCER COUNTY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2017

	GENERAL	SPECIAL REVENUE	DEBT SERVICE FUND	OTHER GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
REVENUES:					
Taxes:					
Property	5,448,792			2,008,080	7,456,872
Motor Vehicle	805,085				805,085
Utility	1,505,968				1,505,968
Other	45,529				45,529
Earnings on Investments	27,041	374		601	28,016
Intergovernmental - State	15,693,355	1,323,912	184,961	946,919	18,149,147
Intergovernmental - Federal		1,743,800			1,743,800
Other Sources	18,728	52,448		317,473	388,649
TOTAL REVENUES	23,544,498	3,120,534	184,961	3,273,073	30,123,066
EXPENDITURES:					
Instructional	14,053,472	2,433,107		304,326	16,790,905
Support Services:					
Student Support Services	768,721	31,982			800,703
Staff Support Services	710,894	382,064		18,135	1,111,093
District Administration	794,292				794,292
School Administration	1,594,530				1,594,530
Business Support Services	571,427				571,427
Plant Operation & Maintenance	2,526,541	71,039			2,597,580
Student Transportation	1,973,296				1,973,296
Food Service Operation	43,861				43,861
Community Service Operations		256,694			256,694
Facilities Acquisition & Construction				106,882	106,882
Debt Service:					
Principal	146,931		2,115,000		2,261,931
Interest	16,216		792,770		808,986
TOTAL EXPENDITURES	23,200,181	3,174,886	2,907,770	429,343	29,712,180
EXCESS(DEFICIT) REVENUES OVER EXPENDITURES	344,317	(54,352)	(2,722,809)	2,843,730	410,886
OTHER FINANCING SOURCES(USES):					
Capital Lease Financing	286,084				286,084
Loss Compensation	5,342				5,342
Operating Transfers In - Note M	488,953	54,352	2,722,809	19,280	3,285,394
Operating Transfers Out - Note M	(83,791)			(3,156,420)	(3,240,211)
TOTAL OTHER FINANCING SOURCES	696,588	54,352	2,722,809	(3,137,140)	336,609
NET CHANGE IN FUND BALANCES	1,040,905	0	0	(293,410)	747,495
FUND BALANCES - BEGINNING	3,371,669	0	0	737,055	4,108,724
FUND BALANCES - ENDING	4,412,574	0	0	443,645	4,856,219

See independent auditor's report and accompanying notes to financial statements.

MERCER COUNTY SCHOOL DISTRICT  
RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2017

Amounts reported for governmental activities in the statement of net position are different because:

NET CHANGES - GOVERNMENTAL FUNDS		747,495
Governmental funds report capital outlays as expenditures because they use current financial resources. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital exceeds depreciation expense for the year.		
Depreciation Expense	(1,966,587)	
Capital Outlays	<u>454,234</u>	
		(1,512,353)
Bond proceeds and capital leases are reported as financing sources in governmental funds and thus contribute to the change in fund balance. In the statement of net position, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net position.		
Principal Paid	2,261,931	
Capital Lease Proceeds	<u>(286,084)</u>	
		1,975,847
Generally, expenditures recognized in this fund financial statement are limited to only those that use current financial resources, but expenses are recognized in the statement of activities when they are incurred.		
Amortization -Deferred Outflows from Advanced Bond Refundings	(133,817)	
Amortization - Bond Premiums	32,873	
District Pension Contributions	457,266	
Cost of Benefits Earned Net of Employee Contributions	(535,377)	
Accrued Interest Payable	13,708	
KSBIT Assessment	86,947	
Accrued Sick Leave	<u>158,498</u>	
		<u>80,098</u>
CHANGES - NET POSITION GOVERNMENTAL FUNDS		<u><u>1,291,087</u></u>

See independent auditor's report and accompanying notes to financial statements.

MERCER COUNTY SCHOOL DISTRICT  
STATEMENT OF NET POSITION  
PROPRIETARY FUNDS  
JUNE 30, 2017

	ENTERPRISE FUNDS		
	FOOD SERVICE	DAY CARE	TOTAL
ASSETS:			
Current Assets:			
Cash & Cash Equivalents	383,007		383,007
Accounts Receivables	7,514		7,514
Inventories for Consumption	25,450		25,450
Total Current Assets	415,971	0	415,971
Noncurrent Assets:			
Furniture & Equipment	223,720		223,720
Less: Accumulated Depreciation	(144,393)		(144,393)
Total Noncurrent Assets	79,327	0	79,327
TOTAL ASSETS	495,298	0	495,298
LIABILITIES:			
Current Liabilities:			
Account Payable	943		943
Total Current Liabilities	943	0	943
Net Position:			
Net Investment in Capital Assets	79,327		79,327
Restricted	415,028		415,028
Total Net Position	494,355	0	494,355
TOTAL LIABILITIES AND NET POSITION	495,298	0	495,298

See independent auditor's report and accompanying notes to financial statements.

MERCER COUNTY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2017

	ENTERPRISE FUNDS		
	FOOD SERVICE	DAY CARE	TOTAL
OPERATING REVENUES:			
Lunchroom Sales	186,084		186,084
Other Operating Revenues			0
TOTAL OPERATING REVENUES	186,084	0	186,084
OPERATING EXPENSES:			
Salaries & Benefits	687,432		687,432
Contract Services	41,887		41,887
Materials & Supplies	682,307		682,307
Depreciation - Note F	10,593		10,593
Other Operating Expenses	3,330		3,330
TOTAL OPERATING EXPENSES	1,425,549	0	1,425,549
OPERATING INCOME(LOSS)	(1,239,465)	0	(1,239,465)
NONOPERATING REVENUES(EXPENSES):			
Federal Grants	1,050,705		1,050,705
State Grants	251,233		251,233
Donated Commodities	71,195		71,195
Transfer to General Fund		(45,183)	(45,183)
Interest Income	1,459		1,459
TOTAL NONOPERATING REVENUE	1,374,592	(45,183)	1,329,409
INCOME(LOSS) BEFORE CAPITAL CONTRIBUTIONS	135,127	(45,183)	89,944
CAPITAL CONTRIBUTIONS	0	0	0
CHANGE IN NET POSITION	135,127	(45,183)	89,944
TOTAL NET POSITION - BEGINNING	359,228	45,183	404,411
TOTAL NET POSITION - ENDING	494,355	0	494,355

See independent auditor's report and accompanying notes to financial statements.

MERCER COUNTY SCHOOL DISTRICT  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2017

	<u>FOOD SERVICE</u>	<u>DAY CARE</u>	<u>TOTAL</u>
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash Received from:			
Lunchroom Sales	186,084		186,084
Cash Paid to/for:			
Employees	(461,036)		(461,036)
Supplies	(612,283)		(612,283)
Other Activities	(45,217)		(45,217)
Net Cash Used by Operating Activities	(932,452)	0	(932,452)
CASH FLOWS FROM NON-CAPITAL AND RELATED FINANCING ACTIVITIES:			
Transfer to General Fund		(45,183)	(45,183)
Federal Grants	1,054,292		1,054,292
State Grants	24,837		24,837
Net Cash Provided by Non-Capital and Related Financing Activities	1,079,129	(45,183)	1,033,946
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Purchase of Capital Assets	(30,131)		(30,131)
CASH FLOWS FROM INVESTING ACTIVITIES			
Receipt of Interest Income	1,459		1,459
Net Increase (Decrease) in Cash and Cash Equivalents	118,005	(45,183)	72,822
Balances, Beginning of Year	265,002		265,002
Balances, End of Year	<u>383,007</u>	<u>(45,183)</u>	<u>337,824</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:			
Operating Income (Loss)	(1,239,465)	0	(1,239,465)
Adjustments to Reconcile Operating Loss to Net Cash Provided (Used) by Operating Activities			
Depreciation	10,593		10,593
State On-Behalf Payments	226,396		226,396
Donated Commodities	71,195		71,195
Change in Assets and Liabilities:			
Inventory	1,574		1,574
Accounts Payable	(2,745)		(2,745)
Net Cash Used by Operating Activities	<u>(932,452)</u>	<u>0</u>	<u>(932,452)</u>
Schedule of Non-Cash Transactions:			
Donated Commodities	71,195	0	71,195
State On-Behalf Payments	226,396	0	226,396

See independent auditor's report and accompanying notes to financial statements.

MERCER COUNTY SCHOOL DISTRICT  
STATEMENT OF FIDUCIARY NET POSITION  
FIDUCIARY FUNDS  
JUNE 30, 2017

	<u>AGENCY FUND</u>
ASSETS:	
Cash and Cash Equivalents	<u>110,162</u>
TOTAL ASSETS	<u>110,162</u>
LIABILITIES:	
Due to Student Groups	<u>110,162</u>
TOTAL LIABILITIES	<u>110,162</u>
NET POSITION HELD IN TRUST	<u><u>0</u></u>

See independent auditor's report and accompanying notes to financial statements.

MERCER COUNTY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2017

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Reporting Entity

The Mercer County Board of Education (“Board”), a five-member group, is the level of government which has oversight responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of Mercer County Board of Education (“District”). The District receives funding from local, state, and federal government sources and must comply with the commitment requirements of these funding source entities. However, the District is not included in any other governmental “reporting entity” as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards. Board members are elected by the public and have decision-making authority, the power to designate management, the responsibility to develop policies which may influence operations, and primary accountability for fiscal matters.

The District, for financial purposes, includes all of the funds and account groups relevant to the operation of the Mercer County Board of Education. The financial statements presented herein do not include funds of groups and organizations, which although associated with the school system, have not originated within the Board itself such as Band Boosters, Parent-Teacher Associations, etc.

The financial statements of the District include those of separately administered organizations that are controlled by or dependent on the Board. Control or dependence is determined on the basis of budget adoption, funding, and appointment of the respective governing board.

Based on the foregoing criteria, the financial statements of the following organizations are included in the accompanying financial statements:

Mercer County Board of Education Finance Corporation – In a prior year, the Board of Education resolved to authorize the establishment of the Mercer County School District Finance Corporation (a non-profit, non-stock, public and charitable corporation organized under the School Bond Act and KRS 273 and KRS Section 58.180) (the “Corporation”) as an agency for the District for financing the costs of school building facilities. The members of the Board also comprise the Corporation’s Board of Directors.

Basis of Presentation

Government-Wide Financial Statements – The statement of net position and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the District that are governmental and those that are considered business-type activities.

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.



## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the District and for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the District.

**Fund Financial Statements** – Fund financial statements report detailed information about the District. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

The accounting and reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures, and changes in fund balances, which reports on the changes in net total assets. Proprietary funds and fiduciary funds are reported using the economic resources measurement focus. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activities.

The District has the following funds:

### I. Governmental Fund Types

- A. The General Fund is the main operating fund of the Board. It accounts for financial resources used for general types of operations. This is a budgeted fund, and any fund balances are considered as resources available for use. This is a major fund of the District.
- B. The Special Revenue (Grant) Funds account for proceeds of specific revenue sources (other than expendable trust or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal financial programs where unused balances are returned to the grantor at the close of the specified project periods as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally funded grant programs are identified in the Schedule of Expenditures of Federal Awards and related notes. This is a major fund of the District.
- C. Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment (other than those financed by Proprietary Fund).
  - 1. The Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund receives those funds designated by the state as Capital Outlay funds and is restricted for use in financing projects identified in the District's facility plan.

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

2. The Facility Support Program of Kentucky (FSPK) accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds may be used for projects identified in the District's facility plan.
  3. The Construction Fund accounts for proceeds from sales of bonds and other revenues to be used for authorized construction.
- D. Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest and related cost; and for the payment of interest on generally obligation notes payable, as required by Kentucky law. This is a major fund of the District.

### II. Proprietary Fund Types (Enterprise Fund)

The Food Service Fund is used to account for school food service activities, including the National School Lunch Program, which is conducted in cooperation with the U.S. Department of Agriculture (USDA). Amounts have been recorded for in-kind contribution of commodities from the USDA. The Food Service Fund is a major fund.

The District applies all GASB pronouncements to proprietary funds as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

### III. Fiduciary Fund Type (Agency and Private Purpose Trust Funds)

- A. The Agency Fund accounts for activities of student groups and other types of activities requiring clearing accounts. The funds are accounted for in accordance with the Uniform Program of Accounting for School Activity Funds.
- B. The Private Purpose Trust funds are used to report trust arrangements under which principal and income benefit individuals, private organization, or other governments.

### Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting.

Revenues – Exchange and Nonexchange Transactions – Revenues resulting from exchange transactions, in which each party receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within 60 days of the fiscal year-end.

Proprietary Fund operating revenues are defined as revenues received from the direct purchases of products and services (i.e. food service). Non-operating revenues are not related to direct purchases of products; for the District, these revenues are typically investment income and state and federal grant revenues.

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resource is required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenues from nonexchange transactions must also be available before it can be recognized.

Deferred Revenue – Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue.

Expenses/Expenditures – On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the statement of revenues, expenses, and changes in net position as an expense with a like amount reported as donated commodities revenue. Unused donated commodities are reported as deferred revenue.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of costs, such as depreciation, are not recognized in governmental funds.

### Property Taxes

Property Tax Revenues – Property taxes are levied each September on the assessed value listed as of the prior January 1, for all real and personal property in the county. The billings are considered due upon receipt by the taxpayer; however, the actual date is based on a period ending 30 days after the tax bill mailing. Property taxes collected are recorded as revenues in the fiscal year for which they were levied. All taxes collected are initially deposited into the General fund and then transferred to the appropriate fund.

The property tax rates assessed for the year ended June 30, 2017, to finance the General Fund operations were \$0.649 per \$100 valuation for real property, \$0.649 per \$100 valuation for business personal property, and \$0.491 per \$100 valuation for motor vehicles.

The District levies a utility gross receipts license tax in the amount of 3% of the gross receipts derived from the furnishings, within the county, of telephonic and telegraphic communications services, cablevision services, electric power, water, and natural, artificial, and mixed gases.

### Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net position but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net position and in the respective funds.

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives for both general capital assets and proprietary fund assets:

<b>Description</b>	<b>Governmental Activities Estimated Lives</b>
Buildings and improvements	25-50 years
Land improvements	20 years
Technology equipment	5 years
Vehicles	5-10 years
Audio-visual equipment	15 years
Food service equipment	10-12 years
Furniture and fixtures	7 years
Rolling stock	15 years
Other	10 years

### Interfund Balances

On fund financial statements, receivables and payable resulting from short-term interfund loans are classified as “interfund receivables/payables.” These amounts are eliminated in the governmental and business-type activities columns of the statements of net position, except for the net residual amounts due between governmental and business-type activities, which are presented as internal balances.

### Accumulated Unpaid Sick Leave Benefits

Upon retirement from the school system, an employee will receive from the District an amount equal to 30% of the value of accumulated sick leave.

Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination payments. The liability is based on the School District’s past experience of making termination payments.

The entire compensated absence liability is reported on the government-wide financial statements.

For governmental fund financial statements, the current portion of unpaid accrued sick leave is the amount expected to be paid using expendable available resources. These amounts are recorded in the amount “accumulated sick leave payable” in the general fund. The noncurrent portion of the liability is reported as a reserve of fund balance.

### Budgetary Process

**Budgetary Basis of Accounting:** The District’s budgetary process accounts for certain transactions on a basis other than Generally Accepted Accounting Principles (GAAP). The major differences between the budgetary basis and the GAAP basis are:

Revenues are recorded when received in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

Expenditures are recorded when paid in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Once the budget is approved, it can be amended. Amendments are presented to the Board at their regular meetings. Such amendments are made before the fact, are reflected in the official minutes of the Board, and are not made after fiscal year-end as dictated by law.

Each budget is prepared and controlled by the budget coordinator at the revenue and expenditure function/object level. All budget appropriations lapse at year-end.

### Cash and Cash Equivalents

The District considers demand deposits, money market funds, and other investments with an original maturity of 90 days or less, to be cash equivalents.

### Inventories

On government-wide financial statements, inventories are stated at cost and are expensed when used.

On fund financial statements inventories are stated at cost. The cost of inventory items is recorded as an expenditure in the governmental fund types when purchased.

The food service fund uses the specific identification method.

### Investments

The private purpose trust funds record investments at their quoted market prices. All realized gains and losses and changes in fair value are recorded in the Statement of Changes in Fiduciary Net Position.

### Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities, and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities, and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements.

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, claims and judgments, the noncurrent portion of capital leases, accumulated sick leave, contractually required pension contributions and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, payments made within sixty days after year-end are considered to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

### Fund Balance

In accordance with Government Accounting Standards Board 54, Fund Balance Reporting and Governmental Fund Type Definitions, the District classifies governmental fund balances as follows:

Non-spendable – includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.

Restricted – includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Committed – includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority and does not lapse at year-end. Formal School Board action must be taken during an open meeting to establish, modify, or rescind a fund balance commitment.

Assigned – includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Fund Balance may be assigned by the Superintendent.

Unassigned – includes positive fund balance within the General Fund which has not been classified within the above-mentioned categories and negative fund balances in other governmental funds.

The District committed the following fund balance type by taking the following action:

<u>Fund Balance Type</u>	<u>Amount</u>	<u>Action</u>
General Fund	663,152	Long-Term Sick Leave Commitment
General Fund	37,557	Site Based Carryforward

The District uses *restricted/committed* amounts to be spent first when both restricted and unrestricted fund balance is available unless there are legal documents/contracts that prohibit doing this, such as grant agreements requiring dollar for dollar spending. Additionally, the District would first use *committed*, then *assigned*, and lastly *unassigned* amounts for unrestricted fund balance when expenditures are made.

The District does not have a formal minimum fund balance policy.

<u>Major Special Revenue Fund</u>	<u>Revenue Source</u>
Special Revenue	State, Local and Federal Grants

### Net Position

Net position represents the difference between assets and liabilities. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

### Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the School District, those revenues are primarily charges for meals provided by the various schools.

### Contributions of Capital

Contributions of capital in proprietary fund financial statements arise from outside contributions of fixed assets, or from grants or outside contributions of resources restricted to capital acquisition and construction.

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

### Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

### **NOTE B – ESTIMATES**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the District's management to make estimates and assumptions that affect reported amounts of assets, liabilities, fund balances, and disclosure of contingent assets and liabilities at the date of the general purpose financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

### **NOTE C – CASH AND CASH EQUIVALENTS**

**Custodial Credit Risk - Deposits.** Custodial Credit is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District's policy is to have all deposits secured by pledged securities.

At year-end, the carrying amount of the District's total cash and cash equivalents was \$5,243,418. Of the total cash balance, \$250,000 was covered by Federal Depository Insurance, with the remainder covered by collateral agreements and collateral held by the pledging banks' trust departments in the District's name. Cash equivalents are funds temporarily invested in securities with maturity of 90 days or less.

Cash and cash equivalents at June 30, 2017, consisted of the following:

	<b>Bank Balance</b>	<b>Book Balance</b>
Farmers Bank	6,187,344	5,243,418
Breakdown per financial statements:		
Governmental Funds		4,750,249
Proprietary Funds		<u>383,007</u>
Cash per Statement of Net Position		5,133,256
Agency Funds		<u>110,162</u>
Total Cash		<u>5,243,418</u>

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

### NOTE D – LONG TERM OBLIGATIONS

The amount shown in the accompanying financial statements as bond obligations represents the District's future obligations to make payments relating to the bonds issued by the Mercer County School District Finance Corporation aggregating \$34,375,000.

The original amount of each issue and interest rates are summarized below:

2007 Unrefunded	2,110,000	4.00%
2008	1,395,000	2.40% - 3.30%
2010 Refunding	1,785,000	0.50% - 2.60%
2012 Refunding	1,885,000	0.75% - 2.125%
2013 Refunding	1,845,000	1.05% - 2.00%
2013	2,400,000	2.00% - 4.00%
2014 Refunding	4,115,000	1.75% - 3.50%
2015	645,000	3.15%
2016 Refunding	18,195,000	2.00% - 3.00%

The District, through the General Fund (including utility taxes and the SEEK Capital Outlay Fund) is obligated to make bond payments in amounts sufficient to satisfy debt service requirements on bonds issued by Mercer County School District Finance Corporation to construct school facilities. The District has an option to purchase the property under lease at any time by retiring the bonds then outstanding.

In 1995 the Board entered into "participation agreements" with the Kentucky School Facility Construction Commission. The Commission was created by the Kentucky Legislature for the purpose of assisting local school districts in meeting school construction needs. The table sets forth the amount to be paid by the Board and the Commission for each year until maturity of all bonds issued. The Kentucky School Construction Commission's participation is limited to the biennial budget period of the Commonwealth of Kentucky with the right reserved by the Kentucky School Construction Commission to terminate the commitment to pay the agreed participation every two years. The obligation of the Kentucky School Construction Commission to make the agreed payments automatically renews each two years for a period of two years unless the Kentucky School Construction Commission gives notice of its intention not to participate not less than sixty days prior to the end of its biennium.



# NOTES TO FINANCIAL STATEMENTS (CONTINUED)

The bonds may be called prior to maturity and redemption premiums are specified in each issue. Assuming no bonds are called prior to scheduled maturity, the maturity, the minimum obligations of the District, including amounts to be paid by the Commission at June 30, 2017, for debt service (principal and interest) are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Participation</u>	<u>District's Portion</u>
2017-18	2,206,606	729,439	176,240	2,759,801
2018-19	2,222,571	681,347	151,343	2,752,575
2019-20	2,253,512	636,265	137,562	2,752,215
2020-21	2,275,000	590,630	137,562	2,728,068
2021-22	2,315,000	544,715	137,562	2,722,153
2022-23	2,355,000	498,521	137,562	2,715,959
2023-24	2,405,000	450,059	136,848	2,718,213
2024-25	2,450,000	402,395	134,959	2,717,436
2025-26	2,525,000	331,476	134,961	2,721,515
2026-27	2,590,000	261,268	134,961	2,716,307
2027-28	1,055,000	168,935	70,653	1,153,282
2028-29	1,080,000	133,438	70,654	1,142,784
2029-30	1,115,000	95,047	70,654	1,139,393
2030-31	1,150,000	54,943	66,762	1,138,181
2031-32	260,000	29,290	59,642	229,649
2032-33	275,000	18,910	59,643	234,267
2033-34	285,000	8,050	47,741	245,310
2034-35	40,000	1,890	0	41,890
2035-36	<u>40,000</u>	<u>630</u>	<u>0</u>	<u>40,630</u>
	<u>28,897,689</u>	<u>5,637,248</u>	<u>1,865,309</u>	<u>32,669,628</u>

Long-term liability activity for the year ended June 30, 2017, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<b>Primary Government</b>					
Governmental Activities:					
Revenue Bond Payable	31,043,353	0	2,145,664	28,897,689	2,206,606
Capital Lease Obligations	558,752	286,064	116,267	728,549	91,383
KSBIT Assessment	257,435	0	86,947	170,488	42,622
Net Pension Liability	6,106,021	632,565	0	6,738,586	0
Accrued Sick Leave	<u>1,249,647</u>	<u>0</u>	<u>533,047</u>	<u>716,600</u>	<u>53,448</u>
Governmental Activities					
Long-Term Liabilities	<u>39,215,208</u>	<u>918,629</u>	<u>2,881,925</u>	<u>37,251,912</u>	<u>2,394,059</u>

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

### NOTE E - CAPITAL LEASE PAYABLE

The District is the lessee of buses under capital leases expiring in various years through 2026. The assets and liabilities under capital leases are recorded at the present value of the minimum lease payments or the fair value of the asset. The assets are amortized over their estimated productive lives. Amortization of assets under capital leases is included in depreciation expense for fiscal year 2017.

The following is a summary of property held under capital leases:

<u>Classes of Property</u>	<u>Book Value as of June 30, 2017</u>
Buses	1,023,341
Accumulated Amortization	<u>(358,005)</u>
	<u>665,336</u>

The following is a schedule by years of the future principal payments under capital leases as of June 30, 2017:

<u>Year Ending June 30,</u>	<u>Capital Lease Payable</u>
2018	108,207
2019	103,406
2020	97,939
2021	98,109
2022	93,051
2023-2026	<u>310,547</u>
Net minimum lease payments	811,259
Amount representing interest	<u>(82,710)</u>
Present value of net minimum lease payments	<u>728,549</u>

Interest rates on capitalized leases vary from 2.00% to 2.625%. The capital leases provide for the buses to revert to the District at the end of the respective lease with no further payment for purchase.

# NOTES TO FINANCIAL STATEMENTS (CONTINUED)

## NOTE F - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2017, was as follows:

	BEGINNING BALANCE	ADDITIONS	RETIREMENTS	ENDING BALANCE
<b>GOVERNMENTAL ACTIVITIES:</b>				
Non-Depreciable Assets:				
Land	1,467,246			1,467,246
Construction	541,345	(541,345)		
Depreciable Assets:				
Buildings & Building Improvements	67,682,774	647,695		68,330,469
Technology Equipment	238,956	15,345		254,301
Vehicles	5,218,860	286,084	282,088	5,272,856
General Equipment	1,951,035	44,455		1,995,490
<b>TOTAL AT HISTORICAL COST</b>	<b>77,100,216</b>	<b>452,234</b>	<b>282,088</b>	<b>77,320,362</b>
<b>LESS ACCUMULATED DEPRECIATION FOR:</b>				
Buildings & Building Improvements	23,648,514	1,657,724		25,306,238
Technology Equipment	96,015	4,309		100,324
Vehicles	3,960,884	204,988	232,088	3,933,784
General Equipment	1,350,811	99,566		1,450,377
<b>TOTAL ACCUMULATED DEPRECIATION</b>	<b>29,056,224</b>	<b>1,966,587</b>	<b>232,088</b>	<b>30,790,723</b>
<b>GOVERNMENTAL ACTIVITIES CAPITAL NET</b>	<b>48,043,992</b>	<b>(1,514,353)</b>	<b>0</b>	<b>46,529,639</b>
<b>PROPRIETARY ACTIVITIES:</b>				
Depreciable Assets:				
General Equipment	193,589	30,131		223,720
<b>TOTALS AT HISTORICAL COST</b>	<b>193,589</b>	<b>30,131</b>	<b>0</b>	<b>223,720</b>
<b>LESS ACCUMULATED DEPRECIATION FOR:</b>				
General Equipment	133,800	10,593		144,393
<b>TOTAL ACCUMULATED DEPRECIATION</b>	<b>133,800</b>	<b>10,593</b>	<b>0</b>	<b>144,393</b>
<b>PROPRIETARY ACTIVITIES CAPITAL NET</b>	<b>59,789</b>	<b>19,538</b>	<b>0</b>	<b>79,327</b>
<b>DEPRECIATION EXPENSE CHARGED TO GOVERNMENTAL FUNCTIONS AS FOLLOWS:</b>				
Instructional				1,573,493
Student Support Services				43,762
District Administration				2,635
School Administration				3,591
Business Support Services				2,773
Plant Operation & Maintenance				136,871
Student Transportation				201,962
Community Service Operations				1,500
<b>TOTAL</b>				<b>1,966,587</b>

**NOTE G – RETIREMENT PLANS**

The District's employees are provided with two pension plans, based on each position's college degree requirement. The County Employees Retirement System covers employees whose position does not require a college degree or teaching certification. The Teachers Retirement System covers positions requiring teaching certification or otherwise requiring a college degree.

**General information about the County Employees Retirement System Non-Hazardous ("CERS")**

*Plan description*—Employees whose positions do not require a degree beyond a high school diploma are covered by the CERS, a cost-sharing multiple-employer defined benefit pension plan administered by the Kentucky Retirement System, an agency of the Commonwealth of Kentucky. Under the provisions of the Kentucky Revised Statute ("KRS") Section 61.645, the Board of Trustees of the Kentucky Retirement System administers CERS and has the authority to establish and amend benefit provisions. The Kentucky Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for CERS. That report may be obtained from <http://kyret.ky.gov/>.

*Benefits provided*—CERS provides retirement, health insurance, death and disability benefits to Plan employees and beneficiaries. Employees are vested in the plan after five years' service. For retirement purposes, employees are grouped into three tiers, based on hire date:

Tier 1	Participation date	Before September 1, 2008
	Unreduced retirement	27 years service or 65 years old
	Reduced retirement	At least 5 years service and 55 years old At least 25 years service and any age
Tier 2	Participation date	September 1, 2008 - December 31, 2013
	Unreduced retirement	At least 5 years service and 65 years old OR age 57+ and sum of service years plus age equal 87
	Reduced retirement	At least 10 years service or 60 years old
Tier 3	Participation date	After December 31, 2013
	Unreduced retirement	At least 5 years service and 65 years old OR age 57+ and sum of service years plus age equal 87
	Reduced retirement	Not Available

Cost of living adjustments are provided at the discretion of the General Assembly. Retirement is based on a factor of the number of years' service and hire date multiplied by the average of the highest five years' earnings. Reduced benefits are based on factors of both of these components. Participating employees become eligible to receive the health insurance benefit after at least 180 months of service. Death benefits are provided for both death after retirement and death prior to retirement. Death benefits after retirement are \$5,000 in lump sum. Five years' service is required for death benefits prior to retirement and the employee must have suffered a duty-related death. The decedent's beneficiary will receive the higher of the normal death benefit and \$10,000 plus 25% of the decedent's monthly final rate of pay and any dependent child will receive 10% of the decedent's monthly final rate of pay up to 40% for all dependent children. Five years' service is required for nonservice-related disability benefits

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Contributions—Required contributions by the employee are based on the tier:

	Required Contributions
Tier 1	5%
Tier 2	5% +1% for insurance
Tier 3	5% +1% for insurance

### **General information about the Teachers' Retirement System of the State of Kentucky ("TRS")**

*Plan description*—Teaching certified employees of the District and other employees whose positions require at least a college degree are provided pensions through the Teachers' Retirement System of the State of Kentucky (TRS)—a cost-sharing multiple-employer defined benefit pension plan with a special funding situation established to provide retirement annuity plan coverage for local school districts and other public educational agencies in the Commonwealth. TRS was created by the 1938 General Assembly and is governed by Chapter 161 Section 220 through Chapter 161 Section 990 of the KRS. TRS is a blended component unit of the Commonwealth of Kentucky and therefore is included in the Commonwealth's financial statements. TRS issues a publicly available financial report that can be obtained at [http://www.TRS.ky.gov/05\\_publications/index.htm](http://www.TRS.ky.gov/05_publications/index.htm).

*Benefits provided*—For employees who have established an account in a retirement system administered by the Commonwealth prior to July 1, 2008, employees become vested when they complete five (5) years of credited service. To qualify for monthly retirement benefits, payable for life, employees must either:

- 1.) Attain age fifty-five (55) and complete five (5) years of Kentucky service, or
- 2.) Complete 27 years of Kentucky service.

Employees that retire before age 60 with less than 27 years of service receive reduced retirement benefits. Non-university employees with an account established prior to July 1, 2002 receive monthly payments equal to two (2) percent (service prior to July 1, 1983) and two and one-half (2.5) percent (service after July 1, 1983) of their final average salaries for each year of credited service. New employees (including second retirement accounts) after July 1, 2002 will receive monthly benefits equal to 2% of their final average salary for each year of service if, upon retirement, their total service less than ten years. New employees after July 1, 2002 who retire with ten or more years of total service will receive monthly benefits equal to 2.5% of their final average salary for each year of service, including the first ten years.

In addition, employees who retire July 1, 2004 and later with more than 30 years of service will have their multiplier increased for all years over 30 from 2.5% to 3.0% to be used in their benefit calculation. Effective July 1, 2008, the System has been amended to change the benefit structure for employees hired on or after that date.

Final average salary is defined as the member's five (5) highest annual salaries for those with less than 27 years of service. Employees at least age 55 with 27 or more years of service may use their three (3) highest annual salaries to compute the final average salary. TRS also provides disability benefits for vested employees at the rate of sixty (60) percent of the final average salary. A life insurance benefit, payable upon the death of a member, is \$2,000 for active contributing employees and \$5,000 for retired or disabled employees.

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Cost of living increases are one and one-half (1.5) percent annually. Additional ad hoc increases and any other benefit amendments must be authorized by the General Assembly.

**Contributions**—Contribution rates are established by Kentucky Revised Statutes (KRS). Non-university employees are required to contribute 12.855% of their salaries to the System. University employees are required to contribute 10.40% of their salaries. KRS 161.580 allows each university to reduce the contribution of its employees by 2.215%; therefore, university employees contribute 8.185% of their salary to TRS.

The Commonwealth of Kentucky, as a non-employer contributing entity, pays matching contributions at the rate of 13.105% of salaries for local school district and regional cooperative employees hired before July 1, 2008 and 14.105% for those hired after July 1, 2008. For local school district and regional cooperative employees whose salaries are federally funded, the employer contributes 16.105% of salaries. If an employee leaves covered employment before accumulating five (5) years of credited service, accumulated employee pension contributions plus interest are refunded to the employee upon the member's request.

### **Medical Insurance Plan**

*Plan description*—In addition to the pension benefits described above, KRS 161.675 requires TRS to provide post-employment healthcare benefits to eligible employees and dependents. The TRS Medical Insurance Fund is a cost-sharing multiple employer defined benefit plan. Changes made to the medical plan may be made by the TRS Board of Trustees, the Kentucky Department of Employee Insurance and the General Assembly.

To be eligible for medical benefits, the member must have retired either for service or disability. The TRS Medical Insurance Fund offers coverage to employees under the age of 65 through the Kentucky Employees Health Plan administered by the Kentucky Department of Employee Insurance. Once retired employees and eligible spouses attain age 65 and are Medicare eligible, coverage is obtained through the TRS Medicare Eligible Health Plan.

*Funding policy*—In order to fund the post-retirement healthcare benefit, six percent (6%) of the gross annual payroll of employees before July 1, 2008 is contributed. Three percent (3%) is paid by member contributions and three quarters percent (.75%) from Commonwealth appropriation and two and one quarter percent (2.25%) from the employer. Also, the premiums collected from retirees as described in the plan description and investment interest help meet the medical expenses of the plan.

### **Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

At June 30, 2017, the District reported a liability for its proportionate share of the net pension liability for CERS. The District did not report a liability for the District's proportionate share of the net pension liability for TRS because the Commonwealth of Kentucky provides the pension support directly to TRS on behalf of the District. The amount recognized by the District as its proportionate share of the net pension liability, the related Commonwealth support, and the total portion of the net pension liability that was associated with the District were as follows:

# NOTES TO FINANCIAL STATEMENTS (CONTINUED)

District's proportionate share of the CERS net pension liability	\$ 6,738,586
Commonwealth's proportional share of the TRS net pension liability associated with the District	<u>117,587,135</u>
	<u>\$ 124,325,721</u>

The net pension liability for each plan was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

The District's proportion of the net pension liability for CERS was based on the actual liability of the employees and former employees relative to the total liability of the System as determined by the actuary. At June 30, 2016, the District's proportion was 0.136863% percent.

For the year ended June 30, 2017, the District recognized pension expense of \$687,716 related to CERS and \$1,934,795 related to TRS. The District also recognized revenue of \$1,934,795 for TRS support provided by the Commonwealth. At June 30, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ 65,664	\$ -
Changes of assumptions	796,778	-
Net difference between projected and actual earnings on pension plan investments	677,285	309,000
Changes in proportion and differences between District contributions and proportionate share of contributions	-	142,445
District contributions subsequent to the measurement date	<u>457,265</u>	<u>-</u>
Total	<u>\$ 1,996,992</u>	<u>\$ 451,445</u>

\$457,265 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows related to pensions will be recognized in pension expense as follows:

<b>Year ended June 30:</b>	
2018	300,378
2019	300,378
2020	205,640
2021	155,185
2022	126,701

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

*Actuarial assumptions*—The total pension liability in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

	CERS	TRS
Inflation	3.25%	3.50%
Projected salary increases	4.00%	4.0-8.2%
Investment rate of return, net of investment expense & inflation	7.50%	7.50%

For CERS, the mortality table used for active members is RP-2000 Combined Mortality Table projected with Scale BB to 2013 (multiplied by 50% for males and 30% for females). For healthy retired members and beneficiaries, the mortality table used is the RP-2000 Combined Mortality Table projected with Scale BB to 2013 (set back 1 year for females). For disabled members, the RP-2000 Combined Disabled Mortality Table projected with Scale BB to 2013 (set back 4 years for males) is used for the period after disability retirement. There is some margin in the current mortality tables for possible future improvement in mortality rates and that margin will be reviewed again when the next experience investigation is conducted. The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period July 1, 2008 – June 30, 2013.

For TRS, Mortality rates were based on the RP-2000 Combined Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on a projection of Scale AA to 2020 with a setback of 1 year for females. The last experience study was performed in 2015.

For CERS, the long-term expected return on plan assets is reviewed as part of the regular experience studies prepared every five years for the system. The most recent analysis, performed for the period covering fiscal years 2008 through 2013, is outlined in a report dated April 30, 2014. Several factors are considered in evaluating the long-term rate of return assumption including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation) were developed by the investment consultant for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The capital market assumptions developed by the investment consultant are intended for use over a 10-year horizon and may not be useful in setting the long-term rate of return for funding pension plans which covers a longer timeframe. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

For TRS, the long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class, as provided by TRS's investment consultant, are summarized in the following table:



## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
U.S. Equity	45.0%	6.4%
Non U.S. Equity	17.0%	6.5%
Fixed Income	24.0%	1.6%
High Yield Bonds	4.0%	3.1%
Real Estate	4.0%	5.8%
Alternatives	4.0%	6.8%
Cash	2.0%	1.5%
Total	100.0%	

*Discount rate*—For CERS, the discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that contributions from plan employees and employers will be made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment return of 7.50%. The long-term investment rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

For TRS, the discount rate used to measure the total pension liability was 4.2%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rates and the employer contributions will be made at statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan employees until the 2040 plan year. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments through 2039 and a municipal bond index rate of 3.01% was applied to all periods of projected benefit payments after 2039. The Single Equivalent Interest Rate (SEIR) that discounts the entire projected benefit stream to the same amount as the sum of the present values of the two separate benefit payments streams was used to determine the total pension liability.

*Sensitivity of CERS and TRS proportionate share of net pension liability to changes in the discount rate*—The following table presents the net pension liability of the District, calculated using the discount rates selected by each pension system, as well as what the District's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

	1% Decrease	Current Discount Rate	1% Increase
CERS	6.50%	7.50%	8.50%
District's proportionate share of net pension liability	8,397,401	6,738,586	5,316,699
TRS	3.2%	4.2%	5.2%
District's proportionate share of net pension liability	0	0	0

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

*Pension plan fiduciary net position*—Detailed information about the pension plan’s fiduciary net position is available in the separately issued financial reports of both CERS and KTRS.

### NOTE H – CONTINGENCIES

The District receives funding from federal, state, and local government agencies and private contributions. These funds are to be used for designated purposes only. For government agency grants, if based upon the grantor’s review, the funds are considered not to have been used for the intended purpose, the grantors may request a refund of monies advanced, or refuse to reimburse the District for its disbursements. The amount of such future refunds and unreimbursed disbursements, if any, is not expected, to be significant. Continuation of the District’s grant programs is predicated upon the grantors’ satisfaction that the funds provided are being spent as intended and the grantors’ intent to continue their programs.

### NOTE I – INSURANCE AND RELATED ACTIVITIES

The District is exposed to various forms of loss of assets associated with the risks of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc. Each of these risk areas is covered through the purchase of commercial insurance. The District has purchased certain policies, which are retrospectively related including Workers’ Compensation insurance.

### NOTE J – RISK MANAGEMENT

The District is exposed to various risks of loss related to injuries to employees. To obtain insurance of workers’ compensation, errors and omissions, and general liability coverage, the District obtains quotes from commercial insurance companies. Currently, the District maintains insurance coverage through Ohio Casualty Insurance Company.

The District purchases unemployment insurance through the Kentucky School Boards Insurance Trust Unemployment Compensation Fund; however, risk has not been transferred to such fund. In addition, the District continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

### NOTE K – DEFICIT OPERATING BALANCES

There are no funds of the District that currently have a deficit fund balance. However, the following funds have operations that resulted in a current year deficit of expenditures over revenues resulting in a corresponding reduction of fund balance:

Special Revenue	54,352
Construction	106,281
Debt Service	2,722,809
District Activity	4,988
Day Care	45,183

### NOTE L – COBRA

Under COBRA, employers are mandated to notify terminated employees of available continuing insurance coverage. Failure to comply with this requirement may put the School District at risk for a substantial loss (contingency).

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

### NOTE M – TRANSFER OF FUNDS

The following transfers were made during the year:

Type	From Fund	To Fund	Purpose	Amount
Matching	General	Special Revenue	Technology Match	54,352
Operating	General	Debt Service	Debt Service	10,160
Operating	Capital Outlay	General	Operations	425,738
Operating	Building Fund	Debt Service	Debt Service	2,677,885
Operating	Building	General	Operations	18,031
Operating	General	District Activity	Operations	19,280
Operating	Capital Outlay	Debt Service	Debt Service	<u>34,765</u>
		Subtotal Governmental Fund Transfers		3,240,211
Operating	Day Care	General	Operations	<u>45,183</u>
		Total Transferred Funds		<u><u>3,285,394</u></u>

### NOTE N – INTERFUND RECEIVABLES AND PAYABLES

There were no interfund balances at June 30, 2017.

### NOTE O – SUBSEQUENT EVENTS

Management has reviewed subsequent events through October 27, 2017. There are no material subsequent events to disclose.

### NOTE P – ON-BEHALF PAYMENT

For the year ended June 30, 2017, \$5,171,287 in on-behalf payments were made by the Commonwealth of Kentucky for the benefit of the District. Payments for life insurance, health insurance, Kentucky teacher retirement matching pension contributions, administrative fees, technology, and debt service were paid by the State for the District. These payments were recognized as on-behalf payments and recorded in the appropriate revenue and expense accounts. These payments were recorded as follows:

Teachers Retirement System (GASB 68 Schedule A)	\$1,934,795
Health Insurance	2,873,177
Life Insurance	4,747
Administrative Fee	37,849
HRA/Dental/Vision	156,800
Federal Reimbursement	(97,688)
Technology	76,646
SFCC Debt Service Payments	<u>184,961</u>
Total	<u><u>\$5,171,287</u></u>

## NOTES TO FINANCIAL STATEMENTS (CONTINUED)

### NOTE Q – KSBIT ASSESSMENT

As of June 30, 2013, Kentucky School Boards Insurance Trust (KSBIT) was disbanded. On January 14, 2013, school districts in Kentucky were notified that if they had been participating members in KSBIT Workers' Compensation Self-Insurance Pool or its Property and Liability Self-Insurance Pool, they would be required to pay an assessment to repay their portion of the losses incurred by KSBIT. The total assessment for all participants is expected to be between \$50 million and \$60 million. As of June 30, 2017, Mercer County School District's remaining assessment is valued at \$170,488. This has been recorded as a long-term liability on the government-wide financial statements. However, the District may be given an additional assessment in the future if KSBIT incurs additional losses as a result of ongoing litigation. The District has elected to pay this assessment according to the following schedule:

<u>Year Ending June 30,</u>	<u>KSBIT Assessment Payable</u>
2018	42,622
2019	42,622
2020	42,622
2021	<u>42,622</u>
Total	<u>170,488</u>

## REQUIRED SUPPLEMENTARY INFORMATION

MERCER COUNTY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 2017

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
REVENUES:				
Taxes	7,449,221	7,449,221	7,805,374	356,153
Other Local Sources	31,000	31,000	27,041	(3,959)
State Sources	10,817,765	10,817,765	15,693,355	4,875,590
Other Sources	5,000.00	5,000.00	799,107	794,107
TOTAL REVENUES	18,302,986	18,302,986	24,324,877	6,021,891
EXPENDITURES:				
Instructional	11,615,087	11,615,087	14,053,472	(2,438,385)
Student Support Services	606,316	606,316	768,721	(162,405)
Staff Support Services	560,254	560,254	710,894	(150,640)
District Administration	949,714	949,714	794,292	155,422
School Administration	1,268,348	1,268,348	1,594,530	(326,182)
Business Support Services	422,318	422,318	571,427	(149,109)
Plant Operation & Maintenance	2,274,653	2,274,653	2,526,541	(251,888)
Student Transportation	1,812,553	1,812,553	1,973,296	(160,743)
Central Office				
Food Service Operations	65,581	65,581	43,861	21,720
Community Service Operations				
Facility Acquisition & Construction				
Other	2,028,162	2,028,162	246,938	1,781,224
TOTAL EXPENDITURES	21,602,986	21,602,986	23,283,972	(1,680,986)
NET CHANGE IN FUND BALANCE	(3,300,000)	(3,300,000)	1,040,905	4,340,905
FUND BALANCES - BEGINNING	3,300,000	3,300,000	3,371,669	0
FUND BALANCES - ENDING	0	0	4,412,574	4,340,905

On-behalf payments totaling \$5,171,287 are not budgeted by the Mercer County School District.

See independent auditor's report and accompanying notes to financial statements.

MERCER COUNTY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCE - BUDGET AND ACTUAL - SPECIAL REVENUE FUND  
FOR THE YEAR ENDED JUNE 30, 2017

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
REVENUES:				
Other Local Sources	32,973	32,973	52,822	19,849
State Sources	1,277,046	1,277,046	1,323,912	46,866
Federal Sources	1,549,691	1,549,691	1,743,800	194,109
Other Sources	87,020	87,020	54,352	(32,668)
TOTAL REVENUES	2,946,730	2,946,730	3,174,886	228,156
EXPENDITURES:				
Instructional	2,244,365	2,244,365	2,433,107	(188,742)
Student Support Services	38,371	38,371	31,982	6,389
Staff Support Services	338,231	338,231	382,064	(43,833)
District Administration				
School Administration				
Business Support Services			0	0
Plant Operation & Maintenance	79,963	79,963	71,039	8,924
Student Transportation			0	0
Central Office				
Community Service Operations	245,800	245,800	256,694	(10,894)
Facility Acquisition & Construction				
Other				
TOTAL EXPENDITURES	2,946,730	2,946,730	3,174,886	(228,156)
NET CHANGE IN FUND BALANCE	0	0	0	0
FUND BALANCES - BEGINNING	0	0	0	0
FUND BALANCES - ENDING	0	0	0	0

See accompanying auditor's report and accompanying notes to financial statements.

MERCER COUNTY SCHOOL DISTRICT  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF DISTRICT'S PROPORTIONATE SHARE  
OF THE NET PENSION LIABILITY  
TEACHERS' RETIREMENT SYSTEM  
FOR THE YEAR ENDED JUNE 30

	<u>2015</u>	<u>2016</u>	<u>2017</u>
District's proportion of net pension liability	0.00%	0.00%	0.00%
District's proportionate share of the net pension liability	\$ -	-	-
State of Kentucky's share of the net pension liability associated with the district	<u>\$ 84,345,557</u>	<u>94,826,480</u>	<u>117,587,135</u>
TOTAL	<u><u>84,345,557</u></u>	<u><u>94,826,480</u></u>	<u><u>117,587,135</u></u>
District's covered-employee payroll	\$ 12,829,760	12,915,230	13,073,489
District's proportionate share of the net pension liability as a percentage of its covered-payroll	0.00%	0.00%	0.00%
Plan fiduciary net position as a percentage of the total pension liability	45.59%	44.70%	57.04%

*Note: Schedule is intended to show information for the last 10 fiscal years. Additional years are not displayed.*



MERCER COUNTY SCHOOL DISTRICT  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF DISTRICT'S PROPORTIONATE SHARE  
OF THE NET PENSION LIABILITY  
COUNTY EMPLOYEES RETIREMENT SYSTEM  
FOR THE YEAR ENDED JUNE 30

	<u>2015</u>	<u>2016</u>	<u>2017</u>
District's proportion of net pension liability	0.142144%	0.142016%	0.136863%
District's proportionate share of the net pension liability	\$ 4,612,000	6,106,021	6,738,586
State of Kentucky's share of the net pension liability associated with the district	-	-	-
TOTAL	<u>\$ 4,612,000</u>	<u>6,106,021</u>	<u>6,738,586</u>
District's covered-employee payroll	\$ 3,341,312	3,307,880	3,277,894
District's proportionate share of the net pension liability as a percentage of its covered-payroll	138.03%	184.59%	205.58%
Plan fiduciary net position as a percentage of the total pension liability	66.80%	63.46%	55.50%

*Note: Schedule is intended to show information for the last 10 fiscal years. Additional years are not displayed.*

MERCER COUNTY SCHOOL DISTRICT  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF CONTRIBUTIONS TO THE  
COUNTY EMPLOYEES RETIREMENT SYSTEM  
FOR THE YEAR ENDED JUNE 30

	<u>2015</u>	<u>2016</u>	<u>2017</u>
Contractually required contributions (actuarially determined)	\$ 426,017	\$ 410,839	\$ 457,266
Contributions in relation to the actuarially determined contributions	<u>426,017</u>	<u>410,839</u>	<u>457,266</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered employee payroll	\$ 3,341,312	\$ 3,307,880	\$ 3,277,894
Contributions as a percentage of Covered employee payroll	12.75%	12.42%	13.95%

*Note: Schedule is intended to show information for the last 10 fiscal years. Additional years are not displayed.*

MERCER COUNTY SCHOOL DISTRICT  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF CONTRIBUTIONS TO THE  
TEACHERS RETIREMENT SYSTEM  
FOR THE YEAR ENDED JUNE 30

	<u>2015</u>	<u>2016</u>	<u>2017</u>
Contractually required contributions (actuarially determined)	\$ 561,294	\$ 515,808	\$ 512,422
Contributions in relation to the actuarially determined contributions	<u>561,294</u>	<u>515,808</u>	<u>512,422</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered employee payroll	\$ 12,829,760	\$ 12,915,230	\$ 13,073,489
Contributions as a percentage of Covered employee payroll	4.37%	3.99%	3.92%

*Note: Schedule is intended to show information for the last 10 fiscal years. Additional years are not displayed.*

MERCER COUNTY SCHOOL DISTRICT  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF DISTRICT'S PROPORTIONATE SHARE  
OF THE NET PENSION LIABILITY  
FOR THE YEAR ENDED JUNE 30, 2017

**TEACHERS' RETIREMENT SYSTEM**

**NOTE A – CHANGES OF ASSUMPTIONS**

The last experience investigation was prepared for the five-year period ending June 30, 2010, and based on the results of an actuarial study and adopted by the board on December 19, 2011.

**NOTE B – METHOD AND ASSUMPTIONS USED IN CALCULATIONS OF ACTUARIALLY DETERMINED CONTRIBUTIONS**

The actuarially determined total pension liability is calculated as of June 30, two years prior to the end of the fiscal year in which the contributions are reported. The following actuarial methods and assumptions were used to determine the contractually required contributions for the year ended June 30, 2017 reported in that schedule:

Valuation Date	June 30, 2016
Inflation	3.50 percent
Salary Increases	3.5 – 8.20 percent
Long-Term Investment Rate of Return, Net of Pension Plan Investment Expense, Including Inflation	7.50 Percent
Municipal Bond Index Rate:	
Prior Measurement Date	3.82 Percent
Measurement Date	3.01 Percent
Year FNP is Projected to be Depleted	2039
Single Equivalent Interest Rate, Net of Pension Plan Investment Expense, Including Inflation:	
Prior Measurement Date	4.88 percent
Measurement Date	4.20 Percent
Post-Retirement Benefit Increases	1.50% annually

MERCER COUNTY SCHOOL DISTRICT  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF DISTRICT'S PROPORTIONATE SHARE  
OF THE NET PENSION LIABILITY  
FOR THE YEAR ENDED JUNE 30, 2017

**COUNTY EMPLOYEES RETIREMENT SYSTEM**

**NOTE A – CHANGES OF ASSUMPTIONS**

The last experience investigation was prepared for the five-year period ending June 30, 2013, and based on the results of an actuarial study and adopted by the board.

**NOTE B – METHOD AND ASSUMPTIONS USED IN CALCULATIONS OF ACTUARIALLY DETERMINED CONTRIBUTIONS**

The actuarially determined contribution rates in the schedule are determined on a biennial basis beginning with the fiscal years ended 2014 and 2015, determined as of July 1, 2013. The amortization period of the unfunded liability has been reset as of July 1, 2013 to a closed 30-year period. The following actuarial methods and assumptions were used to determine the rates reported in that schedule:

Valuation Date	June 30, 2016
Actuarial Cost Method	Entry age
Amortization Method	Level percentage of payroll, closed
Remaining Amortization Period	27 years
Asset Valuation Method	5-year smoothed market
Inflation	3.25 percent
Salary Increase	4.0 percent, average, including inflation
Investment Rate of Return	7.5 percent, net of pension plan investment expense, including inflation

## OTHER SUPPLEMENTARY INFORMATION

MERCER COUNTY SCHOOL DISTRICT  
COMBINING BALANCE SHEET  
NON-MAJOR GOVERNMENTAL FUNDS  
JUNE 30, 2017

	CAPITAL OUTLAY FUND	BUILDING FUND	CONSTRUCTION FUND	DISTRICT ACTIVITY FUND	TOTAL NON-MAJOR GOVERNMENT FUNDS
ASSETS:					
Cash & Cash Equivalents		264	83,728	360,703	444,695
TOTAL ASSETS	<u>0</u>	<u>264</u>	<u>83,728</u>	<u>360,703</u>	<u>444,695</u>
LIABILITIES AND FUND BALANCES:					
Liabilities:					
Accounts Payable				1,050	1,050
Total Liabilities	<u>0</u>	<u>0</u>	<u>0</u>	<u>1,050</u>	<u>1,050</u>
Fund Balances:					
Restricted for:					
Capital Projects			83,728		83,728
SFCC Escrow		264			264
School Activities				359,653	359,653
Total Fund Balances	<u>0</u>	<u>264</u>	<u>83,728</u>	<u>359,653</u>	<u>443,645</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>0</u>	<u>264</u>	<u>83,728</u>	<u>360,703</u>	<u>444,695</u>

See independent auditor's report and accompanying notes to financial statements.

MERCER COUNTY SCHOOL DISTRICT  
COMBINING STATEMENT OF REVENUES AND EXPENDITURES AND CHANGES IN FUND BALANCES  
NON-MAJOR GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2017

	CAPITAL OUTLAY FUND	BUILDING FUND	CONSTRUCTION FUND	DISTRICT ACTIVITY FUND	TOTAL NON-MAJOR GOVERNMENT FUNDS
REVENUES:					
Taxes		2,008,080			2,008,080
Intergovernmental - State	258,819	688,100			946,919
Earnings on Investments			601		601
Other Sources				317,473	317,473
TOTAL REVENUES	258,819	2,696,180	601	317,473	3,273,073
EXPENDITURES:					
Instructional				304,326	304,326
Staff Support Services				18,135	18,135
Facilities Acquisition & Construction			106,882		106,882
TOTAL EXPENDITURES	0	0	106,882	322,461	429,343
EXCESS(DEFICIT) REVENUES OVER EXPENDITURES	258,819	2,696,180	(106,281)	(4,988)	2,843,730
OTHER FINANCING SOURCES(USES):					
Operating Transfers In				19,280	19,280
Operating Transfers Out	(460,504)	(2,695,916)			(3,156,420)
TOTAL OTHER FINANCING SOURCES(USES)	(460,504)	(2,695,916)	0	19,280	(3,137,140)
NET CHANGE IN FUND BALANCES	(201,685)	264	(106,281)	14,292	(293,410)
FUND BALANCES - BEGINNING	201,685	0	190,009	345,361	737,055
FUND BALANCES - ENDING	0	264	83,728	359,653	443,645

See independent auditor's report and accompanying notes to financial statements.



MERCER COUNTY SCHOOL DISTRICT  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND FUND BALANCES  
 AGENCY FUNDS  
 FOR THE YEAR ENDED JUNE 30, 2017

	FUND BALANCE JULY 1, 2016	REVENUES	EXPENDITURES	FUND BALANCE JUNE 30, 2017
Mercer County High School	70,811	338,172	348,692	60,291
Kenneth King Middle School	30,449	153,269	147,291	36,427
Mercer County Intermediate School	11,509	42,126	46,318	7,317
Mercer County Elementary School	3,081	25,552	22,506	6,127
Harlow Elementary School	661	-	661	-
Total Activity Funds (Due to Student Groups)	116,511	559,119	565,468	110,162

See independent accountant's report and accompanying notes to financial statements.

MERCER COUNTY SCHOOL DISTRICT  
STATEMENT OF RECEIPTS, DISBURSEMENTS AND FUND BALANCE  
HIGH SCHOOL ACTIVITY FUND  
FOR THE YEAR ENDED JUNE 30, 2017

	CASH BALANCE JULY 1, 2016	RECEIPTS	DISBURSEMENTS	CASH BALANCE JUNE 30, 2017	ACCOUNTS RECEIVABLE JUNE 30, 2017	ACCOUNTS PAYABLE JUNE 30, 2017	FUND BALANCE JUNE 30, 2017
General Fund	6,822	1,584	2,743	5,663	0	0	5,663
Pennies 4 Patients	0	2,664	2,522	142	0	0	142
Donation WHAS	6	0	0	6	0	0	6
Destitute Senior Expense	651	0	0	651	0	0	651
Titan School Store	1,865	1,338	1,809	1,394	0	0	1,394
Student Vending	2,497	445	500	2,442	0	0	2,442
Alzheimers Walk	0	84	84	0	0	0	0
Pep Club	73	548	0	621	0	0	621
Fines & Fees	8,532	25	6,735	1,822	0	0	1,822
MADD	0	0	0	0	0	0	0
Academic Breakfast	485	746	822	409	0	0	409
Faculty Fund	2,017	1,049	1,802	1,264	0	0	1,264
Athletics-General	5,000	81,406	81,408	4,998	0	0	4,998
Beta Club	1,321	830	1,271	880	0	0	880
Beta Scholarship	0	170	0	170	0	0	170
Gaming Club	256	0	0	256	0	0	256
MCHS Book Club	610	254	150	714	0	0	714
KYA/KUNA	581	3,569	3,926	224	0	0	224
FCA Club	388	424	112	700	0	0	700
Journalism	91	0	(30)	121	0	0	121
FFA Club	5,993	23,745	28,745	993	0	0	993
FCCLA CLUB	1,452	4,009	4,484	977	0	0	977
Engineering Club	140	445	400	185	0	0	185
FEA Club	80	118	94	104	0	0	104
NHS	757	1,403	889	1,271	0	0	1,271
Spanish Club	396	369	206	559	0	0	559
Student Council	874	0	0	874	0	0	874
Pass Program	37	0	0	37	0	0	37
Key Club	91	977	923	145	0	0	145
Film	105	374	286	193	0	0	193
German Club	105	0	0	105	0	0	105
Poetry Club	147	0	0	147	0	0	147
Simply in her Beauty	90	0	0	90	0	0	90
SHS Spanish	463	0	0	463	0	0	463
Envirothon Team	100	100	0	200	0	0	200
TATU Club	483	25	20	488	0	0	488
Prom Fund	2,966	0	0	2,966	0	0	2,966
Driver Ed	0	6,120	6,120	0	0	0	0
Yearbook	6,467	5,593	2,039	10,021	0	0	10,021
Class of 2020	1,386	0	0	1,386	0	0	1,386
Class of 2017	10,178	30,726	36,926	3,978	0	0	3,978
Class of 2018	3,961	9,960	4,711	9,210	0	0	9,210
Class of 2019	3,345	785	708	3,422	0	0	3,422
Sweep	0	186,429	186,429	0	0	0	0
Total All Funds	70,811	366,314	376,834	60,291	0	0	60,291
Interfund Transfers		(28,142)	(28,142)				0
Total	70,811	338,172	348,692	60,291	0	0	60,291

MERCER COUNTY SCHOOL DISTRICT  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2017

<u>FEDERAL GRANTOR/PASS-THROUGH GRANTOR/PROGRAM TITLE</u>	<u>CFDA NUMBER</u>	<u>PASS THROUGH NUMBER (if applicable)</u>	<u>MUNIS PROJECT NUMBER</u>	<u>EXPENDITURES</u>
<u>U.S. Department of Education</u>				
Passed-Through Department of Education				
Title I - Grants to Local Educational Agencies	84.010	3100002	310C	344,693
Title I - Grants to Local Educational Agencies	84.010	3100002	310B	189,396
Title I - Parent Involvement	84.010	3100002	310CM	100
Title I - Parent Involvement	84.010	3100002	310BM	3,284
Title I - Neglected and Delinquent Children	84.010	3100002	313C	14,000
Title I - Neglected and Delinquent Children	84.010	3100002	313A	520
Title I Grants to Local Educational Agencies Total				551,993
Title II, Part A -Teacher Quality Enhancement Grants	84.367	3230002	401B	114,767
Title II, Part A -Teacher Quality Enhancement Grants	84.367	3230002	401C	30,430
Title II - Part A Total				145,197
Rural and Low Income Schools	84.358	3140002	350A	6,160
Rural and Low Income Schools	84.358	3140002	350B	50,769
Rural and Low Income Schools Total				56,929
Perkins Voc.	84.048	3710006	348B	2,009
Perkins Voc.	84.048	3710002	348B	21,584
Perkins Voc.				23,593
IDEA - Special Education - Grants to State	84.027	3810002	337BC	27,044
IDEA - Special Education - Grants to State	84.027	3810002	337C	537,553
IDEA - Special Education - Grants to State	84.027	3810002	337B	101,472
IDEA - Special Education - Preschool Grants	84.173	3800002	343A	30,510
IDEA - Special Education - Preschool Grants	84.173	3800002	343B	53,896
IDEA - Special Education - Preschool Grants	84.173	3800002	343C	43,793
Special Education Cluster				794,268 *
Total U.S. Department of Education				1,571,980
<u>U.S. Department of Health and Human Services</u>				
Passed-Through Department of Education				
Community Clinical Linkages	93.945	024205OL	442C	1,948
<u>U.S. Department of Agriculture</u>				
Passed-Through State Department of Education				
Summer Meal Program	10.559	7690024-16	7690024-16	1,491
Summer Meal Program	10.559	7690024-17	7690024-17	75
Summer Meal Program	10.559	7740023-16	7740023-16	14,432
Summer Meal Program	10.559	7740023-17	7740023-17	719
National School Lunchroom	10.555	7750002-16	7750002-16	183,674
National School Lunchroom	10.555	7750002-17	7750002-17	601,680
School Breakfast Program	10.553	7760005-16	7760005-16	61,141
School Breakfast Program	10.553	7760005-17	7760005-17	186,050
Child Nutrition Cluster				1,049,262
Child & Adult Care Food Program	10.558	7800021-17	7800021-17	16,928
Child & Adult Care Food Program	10.558	7800016-17	7800016-17	1,232
Child & Adult Care Food Program Total				18,160
Pass-Through State Department of Agriculture				
Food Distribution	10.565	057502-10	057502-10	71,195
Total U.S. Department of Agriculture				1,138,617
Total Federal Financial Assistance				2,712,545

\* Tested as major program

MERCER COUNTY SCHOOL DISTRICT  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2017

**NOTE A – BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of the Mercer County School District under programs of the federal government for the year ended June 30, 2016. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance. Because the Schedule presents only a selected portion of the operations of Mercer County School District, it is not intended to and does not present the financial position, changes in net asset, or cash flows of Mercer County School District.

**NOTE B – FOOD DISTRIBUTION**

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance and/or OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

**NOTE C – FOOD DISTRIBUTION**

Nonmonetary assistance is reported in the schedule at the fair value of the commodities disbursed.

**NOTE D – DE MINIMIS COST RATE**

The District did not elect to use the 10 percent de minimis cost rate as allowed under the Uniform Guidance.

**NOTE E – SUBRECIPIENTS**

There were no subrecipients during the fiscal year.

MERCER COUNTY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2017

**Section I – Summary of Auditor’s Results**

**Financial Statements**

Type of audit issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? \_\_\_\_\_ Yes      X   No
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? \_\_\_\_\_ Yes      X   None Reported

Noncompliance material to financial statements noted? \_\_\_\_\_ Yes      X   No

**Federal Awards**

Internal control over major programs?

- Material weakness(es) identified? \_\_\_\_\_ Yes      X   No
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? \_\_\_\_\_ Yes      X   None Reported

Type of auditor’s report issued on compliance for major programs (unmodified):

Any audit findings disclosed that are required to be reported in accordance with 2 CFR section 200.516(a) ? \_\_\_\_\_ Yes      X   No

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
84.027/84.173	IDEA Cluster

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

Auditee qualified as low-risk auditee?   X   Yes    \_\_\_\_\_ No

**Section II – Financial Statement of Findings**

No matters were reported.

**Section III – Federal Award Findings and Questioned Costs**

No matters were reported.

MERCER COUNTY SCHOOL DISTRICT  
SCHEDULE OF PRIOR YEAR AUDIT FINDINGS  
JUNE 30, 2017

There were no prior year audit findings.

**WHITE AND COMPANY, P.S.C.**  
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October 27, 2017

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

Members of the Board of Education  
Mercer County School District  
Harrodsburg, Kentucky

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and *Appendix I to the Independent Auditor's Contract – Audit Extension Request*, *Appendix II to the Independent Auditor's Contract – Instructions for Submission of the Audit Contract*, *Audit Acceptance Statement*, *AFR and Balance Sheet*, *Statement of Certification*, and *Audit Report*, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Mercer County School District, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise Mercer County School District's basic financial statements, and have issued our report thereon dated October 27, 2017.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Mercer County School District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Mercer County School District's internal control. Accordingly, we do not express an opinion on the effectiveness of the Mercer County School District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Mercer County School District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. In addition, the results of our tests disclosed no material instances of noncompliance of specific state statutes or regulation identified in *Appendix II of the Independent Auditor's Contract – State Audit Requirements*.

We noted certain matters that we reported to management of Mercer County School District in a separate letter dated October 27, 2017.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Sincerely,

*White and Company, P.S.C.*

Certified Public Accountants



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October 27, 2017

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR  
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED  
BY THE UNIFORM GUIDANCE**

Members of the Board of Education  
Mercer County School District  
Harrodsburg, Kentucky

**Report on Compliance for Each Major Federal Program**

We have audited Mercer County School District's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Mercer County School District's major federal programs for the year ended June 30, 2017. Mercer County School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of Mercer County School District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance); and *Appendix I to the Independent Auditor's Contract – Audit Extension Request*, *Appendix II to the Independent Auditor's Contract – Instructions for Submission of the Audit Contract*, *Audit Acceptance Statement*, *AFR and Balance Sheet*, *Statement of Certification*, and *Audit Report*. Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Mercer County School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Mercer County School District's compliance.

### ***Opinion on Each Major Federal Program***

In our opinion, Mercer County School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

### **Report on Internal Control Over Compliance**

Management of Mercer County School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Mercer County School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Mercer County School District's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that a material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

## **Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance**

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Mercer County School District as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise Mercer County School District's basic financial statements. We issued our report thereon dated October 27, 2017, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for the purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Sincerely,

*White and Company, P.S.C.*

Certified Public Accountants

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October 27, 2017

**MANAGEMENT LETTER**

Members of the Board of Education  
Mercer County School District  
Harrodsburg, Kentucky

In planning and performing our audit of the financial statements of Mercer County School District for the year ended June 30, 2017, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. Our professional standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We feel that the District's financial statements are free of material misstatement. However, we offer the following suggestions that we feel will strengthen your organization's internal control structure.

2016-1 Prior Year Recommendation:

During the course of the audit, cash receipts for the school activity funds were tested. During that testing it was noted that at King Middle School there was a receipt for a class trip where the students submitting the funds did not sign the multiple receipt form. The Redbook states that "Students third grade and above must sign the Multiple Receipt Form." We suggest that all teachers and sponsors be made aware that students third grade and above must sign the multiple receipt form at the time that funds are remitted by the students.

2017-1 Current Year Status and Recommendation:

At King Middle School, instances were again found where sponsors or teachers were filling in student names on the multiple receipt forms. We recommend that all teachers, sponsors, bookkeepers and principals be informed and require students third grade and above to sign multiple receipt forms.

Management Response:

We will communicate to all teachers and sponsors that it is required that students third grade and above must sign the multiple receipt form at the time funds are remitted by the students. We will further communicate with bookkeepers and principals that multiple receipt forms should be reviewed at the time of submission to ensure students third grade and above have signed their names.

2017-2 Current Year Recommendation:

During the audit, it was noted that the District's Finance Officer, who was employed during fiscal year 2017 was not properly bonded for a few months of the fiscal year. The District properly began the process of obtaining bonding coverage in January 2017 shortly after the new Finance Officer was hired but the coverage obtained was not effective until May 3, 2017. We recommend that the District follow all bonding laws and that additional attention to this be given in years of change in bonded positions.

Management Response:

The Finance Officer properly obtained bonding coverage for fiscal year 2018.

We would like to offer our assistance throughout the year if and when new or unusual situations arise. Our awareness of new developments when they occur would help to ensure that the District is complying with requirements such as those mentioned above.

Sincerely,

*White and Company, P.S.C.*

Certified Public Accountants

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October 27, 2017

Members of the Board of Education  
Mercer County School District  
Harrodsburg, Kentucky

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Mercer County School District for the year ended June 30, 2017. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards (and, if applicable, Government Auditing Standards and the Uniform Guidance), as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated April 11, 2017. Professional standards also require that we communicate to you the following information related to our audit.

Significant Auditing Findings:

*Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Mercer County School District are described in Note A to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2017. We noted no transactions entered into by Mercer County School District during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

Management's estimate of the sick leave liability is based on current pay rates and those currently eligible for retirement. We evaluated the key factors and assumptions used to develop the sick leave liability in determining that it is reasonable in relation to the financial statements taken as a whole.

*Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

### *Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management had corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

### *Disagreements with Management*

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

### *Management Representations*

We have requested certain representations from management that are included in the management representation letter dated October 27, 2017.

### *Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to Mercer County School District's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were not such consultations with other accountants.

### *Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as Mercer County School District's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

### Other Matters

We applied certain limited procedures to management's discussion and analysis and budgetary comparison information, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were not engaged to report on the budgetary comparison information on 42 and 43, or on the schedules of the district's proportionate share of net pension liabilities on pages 44 and 45, or on the schedules of contributions to the County Employees Retirement Plan and the Teachers Retirement System on pages 46 and 47, which accompany the financial statements but are not RSI. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it

Restriction on Use

This information is intended solely for the use of Members of the Board of Education and management of Mercer County School District and is not intended to be, and should not be, used by anyone other than these specified parties.

Sincerely,

*White and Company, P.S.C.*

Certified Public Accountants